

RIGHT TO EMPLOYMENT ADMINISTRATION
(a Component Unit of the Commonwealth of Puerto Rico)
INDEPENDENT AUDITORS REPORT AND
BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011

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RIGHT TO EMPLOYMENT ADMINISTRATION
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BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2011

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RIGHT TO EMPLOYMENT ADMINISTRATION
(a Component Unit of the Commonwealth of Puerto Rico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

The following is a discussion and analysis of the Right to Employment Administration (the Agency's) financial performance, providing an overview of the activities for the Fiscal year ended on June 30, 2011.

HIGHLIGHTS

Government-Wide

The Agency's net deficiency reported in the Government-Wide financial statements as of June 30, 2011 is \$1,257,062, which represents a decrease of the net deficiency of \$5,555,759 of the prior year.

Fund Level

As of June 30, 2011, the Agency's Governmental Funds financial statements reported a combined ending fund balance of \$792,251, which represents an improvement of \$1,488,416 as compared to prior year deficit of \$696,165 when compared to last year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the Agency's basic financial statements, which comprise three components: 1) Government-Wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to Financial Statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Statements (Reporting the Agency as a Whole)

The Statement of Net Deficiency and Statement of Activities are two financial statements that report information about the Agency, as a whole, and about its activities that should help answer this question: "Is the Agency, as a Whole, better or worse off as a result of this year's activities?" These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Deficiency (page 6) presents all of the Agency's assets and liabilities, with the difference between the two reported as net deficiency. Over time, increases and decreases in net assets (deficiency) is an indicator of whether the Agency's financial position is improving or deteriorating.

The Statement of Activities (page 7) presents information showing how the Agency's net assets changed during the most recent fiscal year. All the changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods.

Fund Financial Statements (Reporting the Agency's Major Funds)

The fund financial statements begin on page 8 and provide detailed information about the major individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts the Agency uses to keep track of specific sources of funding and spending for a particular purpose. The Agency's funds are all included in Governmental Funds.

All the Agency's basic services are reported in the governmental funds, which focus in how money flows into and out of those funds and the balances left at year-end that are available for future spending. Consequently, the governmental fund financial statements provide a detailed short-term view of the Agency general operation and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. These funds are reported using modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash.

Under this method, revenues are recognized when measurable and available, expenditures are generally recognized when the related fund liability is incurred. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than governmental-wide statements, two schedules are presented in the audited financial statements as of June 30, 2011, which briefly explains the adjustments necessary to reconcile the fund statements with the governmental-wide statements.

Governmental funds include the General Fund, the WTA Fund and the Local Special Assignment Fund that accounts for resources provided under state and federal grants and local special assignment funds, legally restricted for expenditures for employment assistance purposes.

Governmental funds also employ encumbrance accounting. Under the encumbrance system, all purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation.

The Agency's change in net assets amounted to \$4,298,697 over the course of this year's operations. The Agency's net deficiency at the end of the fiscal year ended on June 30, 2011 resulted on a deficit of \$1,257,062, as follows:

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AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

| | |
|--------------------------------|-----------------------|
| Current and Non-Current Assets | \$11,613,865 |
| Capital Assets | <u>205,014</u> |
| Total Assets | <u>\$11,818,879</u> |
| Current Liabilities | \$10,821,614 |
| Long-term Liabilities | <u>2,254,327</u> |
| Total Liabilities | <u>\$13,075,941</u> |
| Net Deficiency: | |
| Investment in Capital Assets | \$ 205,014 |
| Unrestricted | <u>(1,462,076)</u> |
| Total Net Deficiency | <u>(\$ 1,257,062)</u> |

The largest component of the Agency's net deficiency as of June 30, 2011 corresponds to unrestricted net deficiency.

Capital Assets - consists mainly of computers, software and office equipment. During the year ended on June 30, 2011, there were no additions. Depreciation expense for \$34,694 was charged to administration in the Statement of Activities.

Long Term Liabilities - Consists of the accumulation of the compensated absences and a debt to the ELA Retirement System as of June 30, 2011.

The following financial information was derived from the Government-Wide Statement of Activities for fiscal year ended June 30, 2011 and reflects how the Agency's net assets changed:

| | |
|------------------------------------|-----------------------|
| Revenues: | |
| Operating Grants and Contributions | \$23,549,433 |
| Interest | 2,804 |
| Other | <u>75,605</u> |
| Total Revenues | \$23,627,842 |
| Expenditures: | |
| Administration | 8,194,742 |
| Employment | <u>11,134,403</u> |
| Total Expenditures | <u>19,329,145</u> |
| Change in Net Deficiency | 4,298,697 |
| Deficiency - Beginning | <u>(5,555,759)</u> |
| Deficiency - Ending | <u>(\$ 1,257,062)</u> |

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AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

The Agency's revenues increased by approximately \$10.5 million as compared to prior year due mainly to state grants for summer activities and for repayments of retirement related benefits in the amounts of \$7.5 and \$3 million, respectively. The turn over from the increase in net deficiency of \$2,594,952 on prior year to its decrease by \$4,298,697 in the current year was due mainly to the excess of revenues over expenditures in the operations.

FINANCLAL ANALYSIS OF THE AGENCY'S FUNDS

At the close of the fiscal year, the Agency's Governmental Funds reported a fund balance of \$792,251.

General Fund Budgetary Highlights

The 2010-2011 General Fund Final Budget was \$23,449,679 or \$5,172,326 more than the actual spending of \$22,039,672. Some of this difference was due to transfers from the Management and Budget Office to cover debt related to payments of compensated absences and retirement plan. Due to the use of other revenues sources, the result of operations for the general fund resulted in an excess of revenues over expenditures of \$1,488,416.

Employment Assistance Payment

The Agency participates of a federal award program that is supported by Special Assignments received from the Federal Government such as Workforce Investment Act on a reimbursement basis.

The Agency Economic Condition and Current Situation

The Government of Puerto Rico Executive Branch Reorganization and Modernization Act of 2009 include the Department of Labor and Human Resources (the Department) Reorganizational Plan. This Plan repeals act no. 115 and consolidates and transfers the Administrations operations, personnel, assets, functions and powers to the Department.

Contacting the Agency's Office of Financial Management

This report is designed to provide a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives, If you have any questions about this report or need additional information, contact the Agency Auxiliary Administrator Office at (787) 754-5151 ext. 2100 or (787) 765-9617.

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Certified Public Accountants and Consultants

Members of:
Puerto Rico Society of Certified Public Accountants
American Institute of Certified Public Accountants
Association of Certified Fraud Examiners

INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS

To the Administrator and Management of the
Right to Employment Administration
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, the major fund, and the remaining fund information of the Right to Employment Administration (the Administration), a component unit of the Commonwealth of Puerto Rico as of and for the year ended June 30, 2011, which collectively comprise the Administration's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the Administrations management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free or material misstatement. An audit also includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Administration's internal control over reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above, present fairly, in all material respects, the financial position of the governmental activities, the major fund, and the remaining fund information of the Administration as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis information on pages 1 through 4 and the Budgetary Comparison Schedules on pages 22 and 23 are not a required part of the basic financial statements but they are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it,

San Juan, Puerto Rico
October 12, 2011
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RIGHT TO EMPLOYMENT ADMINISTRATION
(a component unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET DEFICIENCY

JUNE 30, 2011

| | |
|--|---------------------------------|
| Cash | \$ 8,461,987 |
| Accounts receivable: | |
| Due from other governmental agencies | 3,135,991 |
| Other | 15,887 |
| Capital assets: | |
| Vehicles, equipment and furniture and and fixtures, net | <u>205,014</u> |
| Total Assets | <u><u>\$ 11,818,879</u></u> |
| LIABILITIES AND NET DEFICIENCY | |
| Liabilities: | |
| Accounts payable | 6,801,447 |
| Accrued liabilities | 2,475,921 |
| Due to other governmental agencies | 1,544,246 |
| Long term liabilities: | |
| Due within one year | 322,965 |
| Due in more than one year | <u>1,931,362</u> |
| Total Liabilities | <u>13,075,941</u> |
| Net deficiency: | |
| Invested in capital assets | 205,014 |
| Unrestricted | <u>(1,462,076)</u> |
| Total Net Deficiency | <u>(1,257,062)</u> |
| TOTAL LIABILITIES AND NET DEFICIENCY | <u><u>\$ 11,818,879</u></u> |

See accompanying notes to basic financial statements.
RIGHT TO EMPLOYMENT ADMINISTRATION
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STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011

| <u>Function/Programs</u> | <u>Expenses</u> | <u>Program Revenues, Operating Grants and Contributions</u> | <u>Net (Expenses) Revenues and Changes in Net Deficiency</u> |
|-------------------------------|----------------------|---|--|
| Governmental activities: | | | |
| Adminstration | \$ 8,194,742 | \$ 11,095,536 | \$ 2,900,794 |
| Employment | 11,134,403 | 12,453,897 | 1,319,494 |
| Total governmental activities | <u>\$ 19,329,145</u> | <u>\$ 23,549,433</u> | 4,220,288 |
| General revenues: | | | |
| Interest | | | 2,804 |
| Other | | | 75,605 |
| Total general revenues | | | <u>78,409</u> |
| Change in net deficiency | | | 4,298,697 |
| Net deficiency - beginning | | | <u>(5,555,759)</u> |
| Net deficiency - ending | | | <u>\$ (1,257,062)</u> |

See accompanying notes to basic financial statements.
RIGHT TO EMPLOYMENT ADMINISTRATION
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BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2011

| | General Fund | WIA Fund | Total Governmental Funds |
|---|----------------------|------------------|--------------------------------|
| ASSETS | | | |
| Cash | \$ 8,432,866 | \$ 29,121 | \$ 8,461,987 |
| Accounts receivable: | | | |
| Other governmental agencies | 3,135,991 | - | 3,135,991 |
| Other | 15,887 | - | 15,887 |
| Total assets | \$ 11,584,744 | \$ 29,121 | \$ 11,613,865 |
| LIABILITIES | | | |
| Accounts payables | \$ 6,772,326 | \$ 29,121 | \$ 6,801,447 |
| Accrued liabilities | 2,475,921 | - | 2,475,921 |
| Due to other governmental agencies | 1,544,246 | - | 1,544,246 |
| Total liabilities | 10,792,493 | 29,121 | 10,821,614 |
| FUND BALANCE | | | |
| Restricted | 1,239,192 | | 1,239,192 |
| Unassigned | (446,941) | - | (446,941) |
| Total fund balance | 792,251 | - | 792,251 |
| Total Liabilities and Fund Balance | \$ 11,584,744 | \$ 29,121 | |

Amounts reported for governmental activities in the statements of net assets are different because:

| | |
|--|-----------------------|
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds - net of depreciation | 205,014 |
| Compensated absences are not due and payable in the current period and therefore, are not reported in the funds. | (1,083,735) |
| The amount due to the Administration of employees' Retirement system are not due and payable in the current period and therefore, are not reported in the funds. | (218,366) |
| Post-employment termination benefits are not due and payable in the current period and therefore, are not reported in the funds. | (952,226) |
| Net deficiency of governmental activities | \$ (1,257,062) |

See accompanying notes to basic financial statements.
RIGHT TO EMPLOYMENT ADMINISTRATION
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**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE (DEFICIT)**

FOR THE YEAR ENDED JUNE 30, 2011

| | <u>General Fund</u> | <u>WIA Fund</u> | <u>Total Governmental Funds</u> |
|----------------------------------|---------------------|-----------------|---|
| REVENUES | | | |
| Law 115 | \$ 23,449,679 | \$ - | \$ 23,449,679 |
| Workforce Investment Act | - | 99,754 | 99,754 |
| Others | 78,409 | - | 78,409 |
| Total revenues | <u>23,528,088</u> | <u>99,754</u> | <u>23,627,842</u> |
| EXPENDITURES | | | |
| Administration | 11,005,023 | - | 11,005,023 |
| Employment | 11,034,649 | 99,754 | 11,134,403 |
| Total expenditures | <u>22,039,672</u> | <u>99,754</u> | <u>22,139,426</u> |
| Net change in deficit | 1,488,416 | - | 1,488,416 |
| Deficit, beginning of year | <u>(696,165)</u> | <u>-</u> | <u>(696,165)</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 792,251</u> | <u>\$ -</u> | <u>\$ 792,251</u> |

See accompanying notes to basic financial statements.
RIGHT TO EMPLOYMENT ADMINISTRATION
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**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE (DEFICIT) OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2011

| | |
|--|----------------------------|
| Net Change in Deficit - Total Governmental Funds | \$ 1,488,416 |
| Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are as follows: | |
| Depreciation | (34,694) |
| Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces its balances in the Statement of Net Assets | 3,797,201 |
| Post-employment termination benefits expenses are not reported as expenditures in the governmental funds because they do not require the use of current financial resources | <u>(952,226)</u> |
| Change in Net Assets of Governmental Activities | <u><u>\$ 4,298,697</u></u> |

See accompanying notes to basic financial statements.
RIGHT TO EMPLOYMENT ADMINISTRATION
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NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements and the accounting policies of the Right to Employment Administration (the Administration) have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the primary standard setting body for establishing governmental accounting and financial reporting principles. The following summarizes the Administrations' significant accounting policies:

Reporting entity

The Administration is a component unit and an instrumentality of the Commonwealth of Puerto Rico, created by Act No. 115 approved on June 21, 1968, and better known as "Right to Employment Act". The Administration is related to the Puerto Rico Department of Labor and Human Resources pursuant to the provisions of the Reorganization Plan approved and issued by the Executive Branch of the Government of Puerto Rico on May 4, 1994. The Administrator is appointed by the Commonwealth of Puerto Rico. The financial budget (Act No. 115) is approved by the Puerto Rico's Budget and Management Office. Major funding sources are from federal funds and the Commonwealth of Puerto Rico. The Administration has no component unit of its own.

Basis of presentation, measurement focus and basis of accounting

The financial report of the Administration consists of a Management's Discussion and Analysis (MD&A), basic financial statements, notes to the financial statements and required supplementary information other than the MD&A. Following is a summary presentation of each, including the measurement focus and basis of accounting. Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus.

Management's Discussion and Analysis - This consists of a narrative introduction and analytical overview of the Administrations financial activities. This analysis is similar to the analysis the private sector provides in their annual reports.

Basic Financial Statements - The basic financial statements include both government-wide and fund financial statements. Both levels of statements categorize primary activities as governmental type, which are primarily supported by operating grants and contributions.

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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide Statements - The government-wide statements consist of a Statement of Net Deficiency and a Statement of Activities. These statements are prepared using the economic resources measurement focus, which concentrates on an entity or fund's net assets (deficiency). All transactions and events that affect the total economic resources (net deficiency) during the period are reported. The statements are reported on the accrual basis of accounting. Revenues are recognized in the period earned and expenses recognized in the period in which the associated liability is incurred. The effect of inter-fund activities is eliminated.

The Statement of Net Deficiency incorporates all capital (long-lived) assets and receivables as well as long-term debt and obligations. The Statement of Activities reports revenues and expenses in a format that focuses on the net cost of each function of the Administration. Both the gross and net cost of the function, which are otherwise being supported by the general government revenues, is compared to the revenues generated directly by the function. This Statement reduces gross expenses, including depreciation, by related program revenues, operating grants, and contributions. Program revenues must be directly associated with the function.

Fund Statements - The financial transactions of the Administration are recorded in individual funds, each of which are considered an independent fiscal entity. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures. Funds are segregated according to their intended purpose, which helps management in demonstrating compliance with legal, financial and contractual provisions. The governmental fund statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance with one column for the general fund, one for the major fund and one non-major governmental fund. Major funds are determined based on a minimum criterion, that is, a percentage of the assets, liabilities, revenues or expenditures.

The Administration reports the following major governmental funds:

General Fund - Accounts for the resources devoted to finance services that the Administration provides to participants under the Act No. 115, except for those required to be accounted for in another fund.

WIA Fund - The Administration is the sub-recipient agency of the Workforce Investment Act ("WIA") federal award passed-through the Human Resources Occupational and Development Council. These funds were used to create employment opportunities to young people among 16-21 years old with the purpose of acquiring basic employment

RIGHT TO EMPLOYMENT ADMINISTRATION
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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

skills, promote the integral development of participants and develop professional and vocational interest of participants.

Local Special Assignment Funds - These funds come from State Legislative body for employment assistance purposes. The local assignments are: Act No. 52 and "Ocupaciones Diversas".

Governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method of accounting, revenues are recognized when they are susceptible to accrual (i.e. both measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Administration considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures are generally recognized when the related liability is incurred. Certain exceptions to this fundamental concept include the following: 1) payments of principal on general long-term debt which are recorded as expenditure when due and 2) vested compensated absence and special termination benefits which are recorded as expenditures only to the extent that they are expected to be liquidated with expendable financial resources (in the government-wide statements the expense and related accrual liability for long-term portions of debt must be included).

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, a reconciliation is necessary to explain the adjustments needed to transform the fund financial statements into the government-wide statements. This reconciliation is part of the financial statements.

Notes to Financial Statements - The notes to financial statements provide information that is essential to a user's understanding of the basic financial statements.

Required Supplementary Information - Required supplementary information consists of the Budgetary Comparison Schedules - General Fund and WIA and Local Special Assignment Funds as required by GASB.

Inventory - The Administration purchases office and printing supplies and other items that are recorded as expenditures when incurred in the appropriate fund but the year-end inventory is not recorded in the Statement of Net Deficiency as management believes it is not significant.

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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Due From and Due To Other Funds – Inter-fund receivables and payables arise from inter-fund activities and are recorded by all funds affected in the period in which transactions occurred. These generally reflect temporary loans and recovery of expenditures.

Insurance - The Administration has insurance coverage for the facilities and equipment to provide protection in case of disaster and other losses. The Treasury Department of the Commonwealth of Puerto Rico is the designated agency to obtain the necessary insurance for the Administration.

Encumbrances - Encumbrances accounting is provided to record the appropriation from available resources in the governmental funds of purchase orders and contracts for which goods and/or services have not been received. Under GAAP, encumbrances outstanding at year- end constitute expenditures or liabilities since the commitments will be honored during subsequent years. Encumbrances constitute the equivalent of expenditures for budgetary purposes.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as applicable to governmental units, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities to be made at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

Compensated Absences - The Administrations employees accumulate vacation and sick leaves based on continuous service. Compensated absences are recorded as a liability if (1) are earned on the basis of services already performed by employees, (2) it is probable that will be paid (in the form of paid time off, cash payments at termination or retirement, or some other means) and (3) are not contingent on a specific event (such as illness). The compensated absences are accumulated on the basis of 2 1/2 days per month of vacation and 1 1/2 days per month of sick pay up to a maximum of 60 days of vacations and 90 days of sick leave. Upon separation from employment, the accumulated vacations are liquidated up to the maximum number of days. Accumulated sick leave, which is accrued based on all vesting amounts for which payment is probable, is liquidated to employees with 10 years or more of service up to the maximum number of days.

The accrual of compensated absences includes estimated payments that are related to payroll. The entire compensated absence liability is reported on the government-wide financial statements.

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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. The non-current portion of the liability is not reported.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Administration is required to pay on or before March 31 the excess sick leave over 90 days of the accumulated excess at December 31 of the prior year. Also, it is required to pay on or before July 31 the excess vacation leave over 60 days at June 30.

Capital Assets - Capital assets used in the governmental operations are accounted for in the Governmental-wide financial Statement of Net Deficiency, rather than in the governmental funds. When capital assets are purchased, they are recorded as expenditures in the governmental funds and stated at cost.

Major modernizations and betterments are capitalized, while replacements, maintenance and repairs, which do not improve or extend the life of an asset, are not. When assets are sold, retired or otherwise disposed of, the cost is removed. Depreciation on capital assets is calculated using the straight-line method over the following estimated useful lives:

| <u>Asset Description</u> | <u>Estimated Useful Lives</u> | <u>Capitalization Threshold</u> |
|--------------------------|-------------------------------|---------------------------------|
| Vehicles | 5 years | \$100 |
| Office Equipment | 4 - 10 years | \$100 |
| Furniture & fixtures | 4 years | \$100 |

In addition, the Administration assigned a 10% residual value on capital assets.

NOTE 2 - CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that, in the event of a bank failure, the Administration's deposits may not be recovered. The Administration maintains all cash deposits in a governmental bank located in Puerto Rico. Deposits in the governmental bank, all of which are uninsured and uncollateralized, are exposed to custodial credit risk. At year-end the Administration's bank balance in the governmental bank amounts to \$8,899,335.

NOTE 3 - ACCOUNTS RECEIVABLE - OTHER GOVERNMENTAL UNITS

The amount due from other governmental units as of June 30, 2010 consists of Special assignments from the Treasury Department of the Commonwealth of Puerto Rico in the amount of \$3,135,991.

RIGHT TO EMPLOYMENT ADMINISTRATION
(a component unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011

NOTE 4 - CAPITAL ASSETS - NET

The capital assets and depreciation activity as of and for the year ended June 30, 2011 are as follows:

| | <u>Balance June 30, 2010</u> | <u>Additions</u> | <u>Retirements/ Adjustments</u> | <u>Balance June 30, 2011</u> |
|---|----------------------------------|--------------------|-------------------------------------|----------------------------------|
| Vehicles, office equipment and furnitures and fixtures | \$ 1,744,012 | \$ - | \$ (13,462) | \$ 1,730,550 |
| Less accumulated depreciation | (1,504,304) | (34,694) | 13,462 | (1,525,536) |
| Totals | <u>\$ 239,708</u> | <u>\$ (34,694)</u> | <u>\$ -</u> | <u>\$ 205,014</u> |

NOTE 5 - LONG-TERM DEBT

The following summarizes the governmental activity in long-term debt for the fiscal year ended June 30, 2011:

| | <u>Beginning Balance</u> | <u>Increase</u> | <u>Decrease</u> | <u>Ending Balance</u> | <u>Current Portion</u> |
|--|------------------------------|---------------------|---------------------|---------------------------|----------------------------|
| Compensated absences | \$ 1,818,257 | \$ 553,206 | \$ 1,287,728 | \$ 1,083,735 | \$ - |
| Due to Administration of Employees' Retirement System | 3,281,045 | 95,842 | 3,158,521 | 218,366 | 218,366 |
| Post-employment termination benefits | | 952,226 | | 952,226 | 104,599 |
| | <u>\$ 5,099,302</u> | <u>\$ 1,601,274</u> | <u>\$ 4,446,249</u> | <u>\$ 2,254,327</u> | <u>\$ 322,965</u> |

The compensated absences balance includes accrued vacation, sick leave and other benefits and represents the Administration's commitment to fund such costs from future assignments.

The amount due to the Administration of the Employees' Retirement System of the Commonwealth of Puerto Rico and its instrumentalities (ERS) relates to a payment plan entered to by the Administration on August 28, 2009 in the amount of \$1,819,716 for the payment of voluntary early retirement enacted by Act No. 275 of August 13, 2008 (approved by the Commonwealth of Puerto Rico). This Act covers the actuarial study related to early retirement. The payment plan provides for payment as follows:

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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011

NOTE 5 - LONG-TERM DEBT (CONTINUED)

| <u>Payment Date</u> | <u>Amount</u> |
|---------------------|--------------------|
| July 30, 2009 | \$618,704 |
| July 30, 2010 | 618,704 |
| July 30, 2011 | 363,942 |
| July 30, 2012 | <u>218,366</u> |
| | <u>\$1,819,716</u> |

The amount of \$363,942 due on July 30, 2011 was accrued in the governmental fund financial statements, which are prepared on the modified accrual basis of accounting, since such amount was paid on August 12, 2011 with expendable available financial resources.

On December 2, 2009, the Administration entered in another payment plan with the ERS in the amount of \$1,737,270. The amount due is related with the special Acts approved by the Commonwealth of Puerto Rico since year 2002 through 2007 to cover the annual increase of 3% in the pension costs and in other benefits to retired employees. The payment plan provided for a down payment of \$160,000 and monthly payments of \$66,000. As of June 30, 2011 the balance due of \$54,561 was also accrued in the governmental fund financial statements since such amount was paid on August 11, 2011 with expendable available financial resources.

As to post-employment termination benefits please see Note 7.

NOTE 6 - EMPLOYEES RETIREMENT PLAN

Plan Description

Regular employees of the Administration contribute to a cost sharing, multiple-employer, defined benefit retirement plan, administered by the Employees' Retirement System (ERS). ERS covers all regular fulltime public employees working for the central government, public corporations and the municipalities of Puerto Rico. The system provides retirement pensions, death and disability benefits.

Retirement benefits depend upon age at retirement and number of years of credited service. Disability retirement benefits are available to members for occupational and non-occupational disabilities. Benefits vest after ten years of plan participation.

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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011

NOTE 6 - EMPLOYEES RETIREMENT PLAN (CONTINUED)

The system was created under Act 447, approved on May 15, 1951, as amended, and became effective on January 1, 1952. Retirement benefits are determined by the application of stipulated benefit ratios to the member's average compensation. Average compensation is computed based on the highest 36 months of compensation recognized by ERS. The annuity, for which a plan member is eligible, is limited to a minimum of \$200 per month and a maximum of 75% of the average compensation. ERS issues a publicly financial report that includes financial statements and required supplementary information of the Plan, which may be obtained from the ERS.

Act No. 305 of September 24, 1999 amended the Act No. 447 of 1_951 and was enacted with the purpose of establishing a new pension program (System 2000). The new pension program became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999 may elect either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 will only be allowed to become members of the new program.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. There will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth of Puerto Rico and will be subjected to the total accumulated balance of the savings account. The annuity will be based on a formula, which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note, or (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. If savings accounts balance is \$10,000 or less at time of retirement, the balance will be distributed by the System to the participant as a lump sum. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not been granted under the new program. The employer contributions (9.275% of the employee's salary) will be used to fund the current plan. Under System 2000 the retirement age is reduced from 65 years to 60 years for those employees who joined the current plan on or after January 1, 2000.

Funding Policy

Act 447, as amended, is the authority under which obligations to contribute to the Plan by the Plan members, employers and other contributing entities are established or may be amended. Plan members are required to contribute 5.775% of gross salary up to \$6,600, plus 8.275% of gross salary in excess of \$6,500 and the Administration is required to contribute 9.275% of gross salary. The Administrations contributions amounted to \$810,084 for the year ended June 30, 2011.

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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011

NOTE 6 - EMPLOYEES RETIREMENT PLAN (CONTINUED)

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2011, a copy of which can be obtained from the Employees' Retirement System Administration, PO Box 42003, San Juan, Puerto Rico 00949-2003.

NOTE 7 – POST-EMPLOYMENT TERMINATION BENEFITS

On July 2, 2010, the Commonwealth enacted Act No. 70 to establish a program that provides benefits for early retirement or economic incentives for voluntary employment termination to eligible employees, as defined, including employees of the Administration. Act No. 70 established that early retirement benefits will be provided to eligible employees that have completed between 15 to 29 years of credited service in the Retirement System and will consist of biweekly benefits ranging from 37.5% to 50 % of each employee' salary, as defined. In this early retirement benefit program, the Administration will make the employer contributions to the Retirement System and pay the corresponding pension until the employee complies with the requirements of age and 30 years of credited service in the Retirement System. Economic incentives are available to eligible employees who have less than 15 years of credited service in the Retirement System or who have at least 30 years of credited service in the Retirement System and the age for retirement or who have the age for retirement. Economic incentives will consist of a lump-sum payment ranging from one-month to six-month salary based on employment years. Additionally, eligible employees that choose to participate in the early retirement benefit program or that choose the economic incentive and have less than 15 years of credited service in the Retirement System are eligible to receive health plan coverage for up to 12 months in a health plan selected by management of the Administration.

The financial impact resulting for the benefits granted to participants on this program was the recognition within the Administration's financial statements of a liability of \$952,226 in the statement of net assets as of June 30, 2011 and a charge for the same amount in the statement of activities for the year ended June 30, 2011. At June 30, 2011, unpaid long-term benefits granted on this program were discounted at 2.99%.

NOTE 8 - LEASE COMMITMENTS

The Administration leases its office facilities under operating leases with various terms, expiring in June 30, 2016. Some lease agreement contains renewal options and provides for annual increases. For the year ended June 30, 2011, rent and lease expenses amounted to \$1,354,531. Future minimum annual rental obligations under the operating leases in effect for the next five years are as follows:

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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011

NOTE 8 - LEASE COMMITMENTS (CONTINUED)

| <u>Year ending June 30,</u> | <u>Amount</u> |
|-----------------------------|------------------|
| 2012 | \$593,912 |
| 2013 | 55,429 |
| 2014 | 45,483 |
| 2015 | 43,159 |
| 2016 | <u>8,798</u> |
| | <u>\$746,781</u> |

NOTE 9 - CONTINGENCIES

Federal Awards

The Administration participates in a Federal award program under the Workforce Investment Act. Expenditures financed by grants are subject to program compliance audits by the grantor agencies in order to assure compliance with grant requirements. If expenditures are disallowed due to noncompliance with grant program requirements, the Administration may be required to reimburse the disallowed expenditures to the grantor agency.

Litigation

The Administration is a defendant in a number of labor e related lawsuits and has not recorded a provision to cover its exposure on these lawsuits. The amount of the required reserve that may result from the final settlement of these lawsuits cannot be presently determined. The ultimate amount that the Administration may be required to pay as a result of the outcome of these lawsuits, if any, shall be funded through local funds.

NOTE 10 - SUBSEQUENT EVENT - REORGANIZATION

The Government of Puerto Rico's Executive Branch Reorganization and Modernization Act of 2009 include the Department of Labor and Human Resources (the Department) Reorganizational Plan Number 9 of 2010. This Plan repeals Act No. 115 and consolidates and transfers the Administrations operations, personnel, assets, functions and powers to the Department. This Plan is pending approval of the legislature body.

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NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011

NOTE 11 - FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements, which the Administration has not yet adopted:

| <u>Statement</u> | <u>To be Adopted in Fiscal Year Ended</u> |
|--|---|
| 57 OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans | June 30, 2012 |
| 61 Financial Reporting Entity: Omnibus (an amendment of GASB Statements No. 14 and No. 34) | June 30, 2013 |

The impact of these statements on the Administration's financial statements has not yet been determined.

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BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2011

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance</u> |
|--------------------------------------|-------------------------|----------------------|----------------------|-----------------------|
| | <u>Original</u> | <u>Final</u> | | |
| <u>REVENUES</u> | | | | |
| Commonwealth of Puerto Rico Programs | \$ 7,993,000 | \$ 23,449,679 | \$ 23,449,679 | \$ - |
| Other revenues | - | - | 78,409 | 78,409 |
| Total revenues | <u>\$ 7,993,000</u> | <u>\$ 23,449,679</u> | <u>\$ 23,528,088</u> | <u>\$ 78,409</u> |
| <u>EXPENDITURES</u> | | | | |
| Administration | \$ 5,183,000 | \$ 11,139,679 | \$ 11,005,023 | \$ (134,656) |
| Employment | 2,810,000 | 12,310,000 | 11,034,649 | (1,275,351) |
| Total expenditures | <u>\$ 7,993,000</u> | <u>\$ 23,449,679</u> | <u>\$ 22,039,672</u> | <u>\$ (1,410,007)</u> |
| Excess of revenues over expenditures | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,488,416</u> | <u>\$ 1,488,416</u> |

See accompanying notes to Budgetary Comparison Schedule.

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NOTE TO REQUIRED BUDGETARY COMPARISON
SCHEDULE - GENERAL FUND

YEAR ENDED JUNE 30, 2011

NOTE 1 - BUDGET PROCESS AND BUDGETARY BASIS OF ACCOUNTING

As a component unit of the Commonwealth of Puerto Rico, the Administration uses the following procedures in establishing the budget adopted for the general fund:

1. The Administration's management prepares a budget project, which is submitted to the Commonwealth of Puerto Rico's Office of Management and Budget (PROMB).
2. After approval by PROMB, the budget project is incorporated into the Commonwealth of Puerto Rico's consolidated budget project submitted by the executive body of the legislature.
3. Public hearings and discussions are held toward the legal enactment of the budget project on or before the commencement of the fiscal year for which the budget project was prepared (the 1st of July of each year).
4. Once the budget project is approved, legally adopted, and in operation, the Administration's management can request the transfer of budgeted amounts from PROMB, which after approval, is accounted for by the Commonwealth of Puerto Rico Treasury Department.
5. Formal budgetary integration is employed as a management control device during the fiscal year for the general fund.
6. As stated by the Constitution of the Commonwealth of Puerto Rico, the budgeted expenditures should be balanced with estimated revenues.

The budgetary basis of accounting is generally accepted accounting principles. Information concerning the budget adopted has been compiled by the Administration in a manner that could be used to present Budget and Actual - Budget Basis - General Fund as required by accounting principles generally accepted in the United States of America, as applicable to governmental units. For financial statement purposes, the Administration considers the executive funds authorized in order to present the compliance with budget adopted, which lapses as the end of the fiscal year.